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AUTHOR McGuinness, Aims C., Jr.; Paulson, Christine
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ABSTRACT

Two major designs have recently evolved for state involvement in college savings plans. The first concept, the tuition prepayment plan, was pioneered by the state of Michigan by passage of legislation in December 1986. The second concept, college savings bonds, was created and enacted the following year in Illinois. When questions arose about the tax status of tuition prepayment plans, other state legislatures began to prefer the college savings bond concept. This report describes how both types of savings plans work and lists a contact person or persons in each state that has passed savings bond plan or prepaid tuition plan legislation. The bulk of the report is composed of descriptions of the specific provisions of each state's program as of November 1989. For the 22 states with savings bond plans, information provided generally includes title of program, operational status, description, price, and implementation status. For each of the 11 states with prepaid tuition plans, information provided includes: title of program, operational status, description, price of the tuition prepayment, portability to another higher education institution, terminations and refunds, transferability to another person, and administrative authority. (JDD)

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1989 SURVEY
of
COLLEGE SAVINGS and GUARANTEED TUITION PROGRAMS

ECS
NOVEMBER 1989

EDUCATION COMMISSION OF THE STATES
1860 LINCOLN STREET, SUITE 300
DENVER, COLORADC 80295

AIMS C. MCGUINNESS, Jr.
CHRISTINE PAULSON
(303) 830-3671

HE 023 364

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SECTION I

Summary of the 1989 Survey

The ECS Survey on College Prepayment and Savings Plans

SUMMARY OF THE 1989 SURVEY
(Revised November 1989)

Introduction:

State involvement in college planning and savings emerged in state legislatures largely during the 1986 and 1987 sessions. During that period, two major designs evolved that have been the basis of most of the state college savings plans that have followed. The first concept -- the tuition prepayment plan -- was pioneered by the state of Michigan in legislation that was signed into law in December 1986. The second concept -- college savings bonds -- was created and enacted the following year in Illinois and signed into law in December 1987.

States that subsequently passed college savings plans have generally adopted one or the other of these concepts with some adaptations and variations. Initially, states were eager to follow Michigan's lead and a number approved tuition prepayment plans in 1987 sessions. But, when questions arose about the tax status of these plans resulting from an Internal Revenue Service ruling handed down in March 1988, most states with tuition prepayment plans on the books adopted a "wait-and-see" attitude, and have not moved quickly to activate them. With the lingering questions concerning tuition prepayment plans, state legislatures in 1988 largely began to prefer the college savings bond concept engineered by Illinois. However, at this point there are no clear trends as legislatures in 1989 sessions approved college savings plans reliant on either or both concepts. In addition, several states that have not adopted either plan have active legislation to create either one, or often both, of the models.

Tuition Pre-payment Plans:

The Michigan model allows parents or other benefactors to prepay tuition at state postsecondary schools years in advance of when their children will matriculate. The lure of these plans is obvious -- the plans are perceived to be like an insurance policy that gives parents the security of paid-up tuition in a decade when the costs of college are escalating at twice the rate of the consumer price index. However, from the state's perspective, policymakers have to ask themselves whether or not such plans merely shift the risk of unknown inflationary costs from the parent to the state. And, if the state cannot invest the funds to generate after-tax earnings that at least meet the inflationary costs of higher education, who pays the difference? Will the state subsidize the pre-paid contracts through general revenues or tuition increases paid by current students? Or, will states renege on the so-called "guarantee" by paying beneficiaries less than the full tuition cost when the contract comes due? As these plans are not backed up by the full faith and credit of the state, the status of the "guarantee" in these prepay plans is subject to dispute. In judging the merit and value of these plans, these are the kinds of questions policymakers are facing.

Currently, 11 states have enacted plans for prepaid tuition programs. These states -- with the date the legislation was signed in parentheses -- are:

Alabama (5/89)	Louisiana (6/89)	Missouri (6/88)	W.Virginia (7/88)
Florida (7/87)	Maine (6/87)	Ohio (7/89)	
Indiana (7/87)	Michigan (12/86)	Oklahoma (7/88)	Wyoming (2/87)

Three states -- Michigan, Florida and Wyoming -- have implemented the prepaid tuition concept.

While Michigan was the first state to approve the concept, Wyoming was the first state to put the concept into operation. Wyoming began selling contracts in August 1987, and adjusts the prices of its contracts every August thereafter. For example, if a couple were to have purchased a contract for four years of tuition, room and board at the state's lone university in 1987 for a child who entered school sixteen years later, they would have paid \$5,114. In 1988, the comparable price for this contract was \$6,393. In 1989, that same contract costs \$8,949. Based on this example, these increases amount to an annual hike of 25 percent in the first year, and 39 percent in the second year. The prices of the contracts have risen the past couple of years to reflect actuarial projections that anticipate rising costs in Wyoming for higher education.

Michigan began selling its first prepaid tuition contracts in September 1988, and recently announced contract prices effective in September 1989. The price of a year's tuition for a newborn jumped from \$1,689 to \$1,941, an increase of 14 percent; and the price of a year's contract for a fifth-grader rose from \$2,055 to \$2,393, an 11 percent increase. Officials of the Michigan Education Trust concluded the price hike was about 13 percent overall for all types of contracts.

Florida, which also began selling prepaid college contracts in September 1988, also made an annual adjustment in their prices for the fall 1989 enrollment period. But, Florida's increase is small, about 1 percent overall. Florida sells contracts for tuition at either state universities or community colleges, and a separate dorm contract for those who want to prepay housing. Michigan sells only contracts for prepaid tuition redeemable at any public college or university. In Wyoming, the contract is for tuition, room and board inclusive at the University of Wyoming, or the state's community colleges.

Wyoming was the first state able to get its program operational in large part because its authorizing legislation was not contingent upon a favorable ruling from the IRS. In Michigan, legislation required that the state receive a favorable ruling from the IRS before implementation of the program could proceed. In Florida, the legislation required that the seek a ruling on the tax status of its prepaid tuition fund, but did not prohibit the state from proceeding with the program in the meantime.

The IRS ruling received by Michigan officials in March 1989 was deemed favorable primarily because it found that the parents or benefactors would not be liable for taxes on the earnings of funds they use to prepay tuition. However, the IRS ruled the fund itself

would be liable for trust taxes, and that the beneficiaries would have to pay taxes on the earnings of the contract in the year it was redeemed. So, a student holding contracts for four years of college would pay taxes each year to the IRS while in college for the build-up accruing between purchase and redemption on each of the four contracts. However, this build-up would be taxed at the presumably lower income tax rate of the student, rather than the parents' rate. In rare cases in families with large estates, the IRS ruled the parents could bear some liability in the area of gift taxes.

Indiana, which passed a prepaid tuition plan based on the Michigan model, also solicited an IRS ruling and received one similar to that given Michigan. As private letter rulings, these IRS opinions have no overall applications, but technically only apply to the soliciting state.

The status of prepay plans on the books in some states is now in doubt. In Maine, for example, the guaranteed tuition plan that went into law in June 1987 was declared unconstitutional in July 1988 in an informal ruling of the state Attorney General's office which held that it violated the state's Constitutional limit of $2 million in unbonded indebtedness. In Tennessee, the original prepaid tuition legislation passed in 1987 was amended in April 1989 to transform it into a college savings program due to concerns raised about the tax liability of a tuition trust.

In 1989, Alabama and Ohio passed enabling legislation for tuition pre-payment plans. In Louisiana, the state legislature authorized the state Board of Regents to develop plans for a program of this kind and deliver a report on its feasibility by January 1990.

College Savings Bond Programs:

Based on the model established by Illinois in legislation approved in December 1987, college savings bonds are normally carved out of an existing general obligation bond sale and marketed by the state to low and middle-income families in order to encourage them to plan and save for their children's college education. Typically, college savings bonds are zero-coupon bonds, so called because all interest earnings come due at maturity. They are most often sold at face values of $5,000 with maturities ranging anywhere from 5 to 20 years, at interest rates varying between 6 and 8 percent, depending on market conditions. Since college savings bonds are in essence general obligation bonds, they also hold the same tax advantages as G.O. bonds. Earnings on these bonds are exempt from federal taxes, and from state taxes for residents of the state in which they are purchased.

In addition to the benefits perceived in encouraging families to save for college, college savings bonds also hold a more immediate, financial interest for states. That advantage lies in the fact that there is some savings to the state because with zero-coupon bonds the state is not liable for the interest payment until maturity. In comparison, most G.O. bonds are sold by the state and earn current interest payable every six months. In addition, it has been noted that the sale of college savings bonds has opened the door to a new retail market for general obligation bonds. In the past, all general obligation bonds have been sold in large denominations -- often in units of $25,000 or more -- to large, institutional investors. Since changes in the 1986 Tax Reform Act have made G.O. bonds less

attractive to these large investors, the emergence of college savings bonds for retail sale is viewed positively by state treasurers and other bonding authorities.

Neither do college savings bonds pose any special risk to states in terms of an unknown financial liability. Unlike tuition pre-payment plans, college savings bond programs do not pretend to promise that the return on the security will keep pace with the cost of higher education. They primarily advance the state's interest in encouraging and helping families to save for college, and ensuring the availability of resources to educate the next generation on which the strength of the state's industries and institutions depends.

College savings bonds have come into some criticism because they lack the promise of a guarantee inherent in the prepaid plans. It is noted that the cost of higher education has escalated from 7 to 10 percent annually in the 1980s while college savings bonds typically earn from 6 to 8 percent annually. However, interest on these bonds is all tax free. A conversion table indicates, for example, a family in the 28 percent tax bracket with a tax-free bond yielding 7.2 percent is earning the equivalent of a 10 percent taxable security.

Primarily because of the fewer risks involved, states in 1988 and 1989 have been more prone to adopt the college savings bond model. In most cases, the plans were originated through state legislation. However in a couple of cases college savings bonds were sold through state executive offices under existing authority. While the bond program has been the primary vehicle for a college savings plan of this type, there have been a couple of variations based on the concept of shares or units sold in a state savings fund. States that have approved initiatives of these type (date of bill signing or sale based on executive initiative in parentheses) are the following:

Arkansas (3/89), tax-exempt bonds
Colorado (4/88), tax-exempt bonds
Connecticut (7/88), tax-exempt bonds
Delaware (7/88), tax-exempt bonds
Hawaii (11/88), tax-exempt bonds
Illinois (9/87), tax-exempt bonds
Iowa (5/88), tax-exempt bonds
Kentucky (4/88), college savings fund plus an endowment fund
Louisiana (6/89), tax-exempt bonds
Missouri (6/88), tax-exempt bonds
New Hampshire (6/89), tax-exempt bonds
North Carolina (7/87), tax-exempt bonds
North Dakota (4/88), tax-exempt bonds
Ohio (7/89), tax-exempt bonds
Oregon (7/89), tax-exempt bonds
Rhode Island (6/88), tax-exempt bonds
Tennessee (4/89), tax-exempt bonds
Texas (5/89), tax-exempt bonds
Virginia (4/88), tax-exempt bonds
Washington (3/88), tax-exempt bonds
Wisconsin (9/89), tax-exempt bonds

As of November 1989, thirteen of the 21 states listed above have conducted at least one college savings bond sale. These states (with the date of the first or only sale in parentheses) are:

Connecticut (12/88)	North Carolina (8/87)
Delaware (5/89)	North Dakota (5/88)
Hawaii (11/88)	Oregon (5/88)
Illinois (1/88)	Rhode Island (4/89)
Iowa (10/88)	Virginia (6/89)
Missouri (1/89)	Texas (10/89)
Washington (9/88)	

Since college savings bonds are part and parcel of a general bond issue, they are not available on an ongoing basis. In some states, there has been but one sale and future sales are conditional upon further legislation or executive authorization. Other states, such as Illinois and Connecticut, have made a commitment to designate college savings bonds on an ongoing basis. As a result, Connecticut expects to have a sale every six months according to the ongoing schedule it has been established for G.O. bond issues. However, some states have G.O. bond issues very infrequently thereby limiting the opportunity for college savings bond issues.

G.O. bond issues typically provide revenue for state construction and remodeling projects involving roads and bridges, state or university buildings and sometimes renovation or repair of these structures. These projects are generally authorized by the state legislature, and the legislature depends upon state revenues in the form of taxes and fees to repay the issue with interest. General obligation bonds are considered a safe, conservative security as they are backed up by the full faith and credit of the state.

While sales of college savings bonds are not regular and often infrequent, they normally are conducted with a wealth of publicity to inform families of their availability. In addition to the paid advertising in newspapers and other media purchased by the banks and brokers that are offering the college savings bonds, the sales tend to be the subject of gubernatorial news conferences and press releases. Brochures explaining the sales are well distributed to families and the media, and state bonding authorities conducting the sale set up meetings with newspaper editorial boards and radio news and information programs.

This practice too has come under criticism as it is felt this sort of state involvement tends to give the appearance of official approval or license to a college savings program that may or may not be better than other alternatives. However, state officials generally say they are most interested in promoting college savings, rather than the bonds themselves. If families are moved to visit a bank or broker upon seeing an ad for college savings programs, they say they will consider the program successful if they buy a suitable security for college savings, whether or not it is a state-sponsored bond. The primary objective, they say, is to encourage families to meet the responsibility for saving for college expenditures in order to ensure the postsecondary educational needs of the upcoming generation.

SECTION II

Contacts

CONTACTS FOR STATES THAT HAVE PASSED LEGISLATION

Savings Plans:

Colorado: Mark Gallegos, Executive Director
Colorado Postsecondary Educational Facilities Authority
(303) 837-4332

Connecticut: Kathleen Palm, Executive Assistant
State Treasurer's Office - (203) 566-5050

Delaware: Denise Schoen, Debt Management Specialist
State Treasurer's Office - (302) 736-5098

Hawaii: Gordon Wong, Department of Budget and Finance
(808) 548-7576 or (808) 548-7581

Illinois: Ross Hodel, Deputy Director, Fiscal Affairs
Board of Higher Education
(217) 782-3632

Iowa: Cynthia Eisenhauer, Director of Business and Finance
State Board of Regents - (515) 281-3934

Kentucky: Don Mullis, Kentucky Educational Savings Plan Trust
(502) 564-2924

Louisiana: Carol Coltharp, State Board of Regents - (504) 342-4253

Missouri: Debbie Frey, Missouri Health and Educational Facilities
Authority - (314) 231-3355

Minnesota: Phillip Lewenstein, (612) 296-9684

North Carolina: John D. Foust, Deputy State Treasurer
(919) 733-3064

North Dakota: Tim Moore, Bank of North Dakota
(701) 224-5691

Ohio: Tammy Zinzmeister, aid to Rep. Paul Jones
(614) 466-2501

Oregon: Lee Penny, House Education Committee - (503) 378-5781
Roger Kirchner, Special Assistant to the State Treasurer
(503) 378-4329

Rhode Island: Frank Prosnitz, Senior Policy Analyst
Treasurer's Office (401) 277-2397

Tennessee: Ron Gambill, Tennessee Student Assistance Corporation - (615) 741-1346
Allen Cullum, same number

Texas: Tom Pollard, Bond Review Board - (512) 463-1741

Virginia: Barry Dorsey, Virginia Council of Higher Education - (804) 225-2629

Washington: Tim Kerr, State Treasurer's Office - (206) 753-1464

Wisconsin: Russ Whitesel, Legislative Council - (608) 266-0922

Tuition Guarantee Plans:

Alabama: Brenda Emfinger, State Treasurer's office - (205) 269-2700

Florida: Bill Montjoy, Department of Insurance - (904) 488-8514

Indiana: Henry Hector, Deputy Commissioner
Commission for Higher Education - (317) 232-1900
Suzann Langston, Budget Office - (317) 272-5611

Louisiana: Carol Coltharp, State Board of Regents - (504) 342-4253

Maine: Richard Pierce, Maine Educational Loan Marketing Corp. (MELMAC)
(207) 623-2600

Michigan: Sabrina E. Keeley, MI Education Trust (MET) - (517) 335-4767
Robert Kolt, Dept of Treasury Public Affairs Officer - (517) 373-3222
Thomas Baldini, Governor's Education Advisor - (517) 373-0526

Missouri: Charles McLain, Commissioner, State Coordinating Board
for Higher Education - (314) 751-2361

Ohio: Kurt M[illegible]er, aide to Sen. Paul Pfeifer - (614) 466-8049

Oklahoma: Andrea [illegible]arney - (405) 521-3201; Bill Thoms - (405) 521-5693

West Virginia: Jerry Simpson, State Treasurer's office - (304) 343-4000

Wyoming: Bruce Hooper, University of Wyoming - (307) 766-3214

SECTION III

An Overview of Bills and Resolutions that have been Passed

SAVINGS PLANS

Arkansas
Colorado
Connecticut
Delaware
Hawaii
Illinois
Iowa
Kentucky
Louisiana
Minnesota
Missouri
New Hampshire
North Carolina
North Dakota
Ohio
Oregon
Rhode Island
Tennessee
Texas
Virginia
Washington
Wisconsin

PREPAID TUITION PLANS

Alabama
Florida
Indiana
Louisiana
Maine
Michigan
Missouri
Ohio
Oklahoma
West Virginia
Wyoming

ALABAMA

Title: HB 445 -- The Alabama Prepaid College Tuition Plan of 1989

Type: Tuition Guarantee

Status:
- Signed by the governor on May 17, 1989
- Plan is not contingent upon IRS or SEC rulings

Description:

The legislation has received strong support from State Treasurer George C. Wallace Jr. It provides the state treasurer will serve as the chairman and presiding officer of the board of trustees of the Alabama Prepaid College Tuition Trust Fund. The nine-member board is responsible for managing prepaid tuition monies and for developing rules and regulations concerning refunds, eligibility and residency and other contractual concerns.

In general, it is envisioned Alabama will be offering one type of prepaid tuition contract which will allow the beneficiary to attend any two-year or four-year public postsecondary institution in the state, provided the student meets the academic requirements for admission.

Price: To be set by the board of trustees. The plan will provide for both lump sum payments and installment payments.

Room and Board: No, guarantee for tuition and fees only.

Whose Risk? The state's.

Portability: The board of trustees may set provisions for payments to private or out-of-state institutions if the beneficiary elects to attend a school of this type.

Terminations and Refunds: Provisions are to be set by the board of trustees.

Transferability/Substitutions: Provisions are to be set by the board of trustees.

Administrative: The State Treasurer's office maintains administrative authority.

Other: The legislature has granted a $500,000 supplemental appropriation to initiate the prepaid tuition plan.

ARKANSAS

Title: HB 1311 -- An act authorizing the Arkansas Development Finance Authority to issue State of Arkansas College Savings General Obligation Bonds

Type: General Obligation Bonds

Status: Signed by the governor on March 20, 1989

Description: Two major objectives are outlined in the legislation, namely:

a) To create an investment vehicle for families to enable their children to avail themselves of higher educational opportunities in times of increasing economic and technological competitiveness; and,

b) To meet the growing need for the state to undertake projects to renew and expand the state's higher education facilities and physical plant, including the construction, repair, expansion and renewal of various education facilities, and to provide for the acquisition of teaching and research equipment and library assets.

To accomplish these purposes, the legislation authorizes the issuance of a total of $300 million in general obligation bonds in the amount of up to $300 million total, but no more than $100 per biennium. However, the bonds may not be issued under this act without the approval of a majority of the electorate in the next general election in November 1990. However, the governor may call a special election to put the question before the voters before that time, although that is not likely to occur.

Implementation: The Arkansas Development Finance Authority will proceed with the bond issue as soon as feasible once the measure is approved by the Arkansas electorate. The legislation also charges the Authority with advising the Governor and Chief Fiscal Officer on the following aspects of the bond program:

- Marketing of the bonds to insure their broad distribution throughout the state for educational purposes;
- An effective advertising campaign to inform the general public about the bonds and their availability;
- The increments in which to market the bonds and maturity dates so purchasers will have such funds when needed for educational purposes; and,
- To evaluate the effectiveness of the program, as well as to study and review alternative investment instruments with respect to their suitability for a college savings program.

COLORADO

Title: Colorado Postsecondary Education Savings Bond Act of 1988; amended in 1989

Type: Either general obligation or revenue bonds

Status: HB 1282 to study the creation of a college savings bond program - Signed April 1988
HB 1049 to implement the sale of college savings bonds - Signed April 12, 1989

Description: These two pieces of legislation enable the Colorado Postsecondary Education Facilities Authority to designate bonds as Colorado Education Savings Bonds or Certificates. These bonds may be issued by either this authority or in cooperation with another state or local bonding authority. The bonds are to be both federal and state tax exempt; and zero-coupon, deep discount or a comparable instrument in an issue structured both to meet the needs of the issuer as well as to meet the needs of individuals planning on using the proceeds for postsecondary purposes. The legislation also mandates the Postsecondary Authority to do the following:

- To evaluate the feasibility of attaching incentive payments to education savings bonds at maturity if the proceeds are used to pay for in-state postsecondary costs;
- To investigate the possibility of copayment and staggered or periodic payment plans as ways of purchasing educational savings bonds;
- To collaborate with the Colorado Commission on Higher Education on efforts to educate parents about financial planning with respect to their children's college education.

Implementation:

Following passage of the amended legislation in April 1989, the staff and board of the Colorado Postsecondary Educational Facilities Authority have begun efforts to identify a bond issue which is appropriate for the designation of college savings bonds. A bond sale of this type is expected to take place within the next year.

CONNECTICUT

Title: Family College Savings Plan; Public Act 88-299 of 1988

Type: General Obligation Bonds designated as educational savings bonds

Status:

- Signed June 1988
- First sale of $100 million in college savings bonds took place in December 1988;
- Second sale of $145 million in college savings bonds occurred April 17-21, 1989;
- Another sale anticipated in October or November, and at intervals of every six months thereafter.

Description: The college savings bonds are zero-coupon bonds that are exempt from both federal and state taxes. They are sold with face values of $1,000 or $5,000 with maturities from five years to 20 years, or any year in between. At the December '88 sale where $100 million in college savings bonds were sold, interest earned by purchasers ranged from 6.4 percent for a 5-year maturity to 7.4 percent for a 20-year maturity.

Price: Typical costs for the bonds based on the December '88 sale amount to $740 for a $1,000 bond maturing in 5 years; $250 for a $1,000 bond maturing in 20 years, and $2,600 for a $5,000 bond held for 10 years.

Other:

An evaluation of the December '88 college savings bond sale indicates the objective of serving the small investor was met. Findings indicated:

- $3.5 million worth of bonds were sold in $1,000 denominations;
- There were 8,000 orders for bonds worth $5,000 or less maturity value -- which was about 50 percent of the total issue;
- About 75 percent of the bonds were purchased by Connecticut residents investing in bonds worth $25,000 or less in maturity values.
- There were 17,000 total orders. By comparison, on $100 million worth of Connecticut bonds, there are normally only about 250 orders.

DELAWARE

Title: Senate Bill 476 - 1988 Session

Type: General Obligation Bonds

Status:

- Signed July 1988
- Initial sale of $45 million in college savings bonds took place May 15, 1989.

Description: The most important practical effect of this bill is that Delaware bonds may now be issued in smaller, more affordable denominations. From a synopsis of the bill by Senator Still:

> This bill eliminates the legal obstacles - lack of express mention of capital appreciation bonds, and prohibition of both negotiated sales and issues with payment of principal at a time greater than one year from the date of issue - from the Delaware Code, thus enabling the issuing officers to bring about small denomination capital appreciation issues, which could be a suitable vehicle for meeting a family's future higher education expenses. In addition, the bill specified that the amount of the aggregate initial offering prices pertaining to the issue is the amount to be used in calculating the State's position with regard to statutory debt limits. The bill also contains a provision requiring the Secretary of Finance to report to the General Assembly on an annual basis regarding the status of the program.

Implementation:

The initial sale of college savings bonds was conducted by the State Treasurer's office on May 15, 1989. The entire sale of zero-coupon, general obligation bonds was marketed for educational investment purposes in $5,000 denominations. Bonds could be purchased maturing in any year from 1993 to 2009, basically from 4 to 20 year increments. The interest rates averaged about 7 percent per annum. For example, a 4-year bond carried a 6.8 percent annual yield and was priced at $3,847.90. A 20-year bond carried a 7.05 percent annual yield and sold for $1,257.95. Brokers marketed the bonds for college savings in newspaper advertising, and a brochure was distributed by the Treasurer's office. State Treasurer Janet Rzewnicki also provided some radio interviews to advertise the availability of the college savings bonds for families.

Other Considerations:

The Delaware legislation does not provide any financial incentives if the proceeds are used for educational purposes. The rates paid are the same no matter how the proceeds are used. Neither does the legislative exempt bond proceeds from financial aid considerations, as is the case in other states.

FLORIDA

Title: Florida Prepaid Postsecondary Education Expense Program, CS/CS/HBs 47 and 17 of 1987.

Type: Tuition guarantee - Michigan model (but Florida includes a dormitory residence plan)

Status:

- Legislation requires request of an IRS ruling but allows program to begin operating in the interim;
- Signed June 1987;
- Program to be discontinued if state determines that it is financially infeasible;
- During the initial September '88 through Jan. 20, 1989 enrollment period, 45,695 tuition contracts were sold, and 12,851 dorm contracts were sold;
- Prices were adjusted in August 1989 for the '89 fall enrollment period.

Description: Three prepaid tuition plans are offered:

- Community College Plan (prepayment of 60 credit hours)
  - 2,194 contracts of this type sold through 1/20/89.
- University Plan (prepayment of 120 credit hours.) - 33,665 of this type sold through 1/20/89. plan
- 2 + 2 Plan (two years of university and two years of community college tuition) - 9,844 of this type were sold through 1/20/89.

In addition, prepaid dorm contracts can also be purchased in Florida in yearly increments. In the enrollment period ending 1/20/89, 12,851 contracts of this type were sold.

Eligibility and Residency:

- The qualified beneficiary must be a Florida resident <u>at time of purchase</u>; the purchaser, however, may be from Florida, another state or even a foreign country.
- Qualified beneficiaries will be considered residents for tuition purposes whatever their legal residence at time of matriculation

Price: For a single payment plan, prices for an infant as of August 1989 are: Four years of university cost $3,843.33 (compared to $3,795.88 in 1988); two years' community college cost $893.47 (compared to $882.44 in 1988); combination plan (two years university/two years CC) costs $2,806.25 (compared to $2,771.61 in 1988); one year's dormitory contract costs $1,094.65 (compared to $1,081.13 in 1988). Prices are comparably higher for older children and when installment plans are chosen. The installment rate is an applied interest rate of 7.5 percent. The increases from 1988 to '89 amount to 1 percent overall.

Room/Board/Fees? Room is paid for if a dormitory residence plan is purchased. Board is not covered.

Financial Aid Considerations: The value of prepaid tuition and dormitory contracts will be counted as part of a family's resources when figuring need-based financial aid.

Whose risk? Risk is shared by the state, the trustee services firm and the product providers. If monies in the fund are insufficient to meet contractual obligations to purchasers and qualified beneficiaries, the trustee services firm agrees to meet these obligations if it has selected or supervised programs imprudently; the product providers if they have invested imprudently; and the state is responsible for all other circumstances.

Florida cont'd next page

Portability:

- None across state lines
- Within the state, plans may be applied toward eligible independent colleges or universities (located and chartered in Florida; not-for-profit; properly accredited; and degree-granting as defined by the law). The amount paid out will equal the cost of public tuition at the time of initial enrollment. Dormitory contracts may also be transferred to Florida private universities and colleges. Purchasers or qualified beneficiaries are responsible for any shortfall.

Military time: The length of tour of duty of a qualified beneficiary will not be counted as part of the contractually specified time.

Termination and Refunds:

- Refunds are subject to a $50 administrative fee.
- Termination occurs when benefits have not been used within 10 years after the projected enrollment date (not counting military time) and no other arrangements have been made. There will be no refund in this case.
- Refunds are also not allowed if the qualified beneficiary decides to drop out after completing more than 50% of the allowable semester hours, unless it is a matter of converting a university plan to a community college plan, and the qualified beneficiary graduates from the latter.
- Appropriate refund is given if a university plan is converted to a community college plan.
- Complete refunds (investment plus interest) are given if the state decides to cancel the program. Qualified beneficiaries who are already enrolled in school, or who are within one year of enrollment, however, will receive the full benefits contracted for.
- Other refund situations will be specified in the contracts.

Transferability/Substitutions: Contracts may be transferred to younger half-, step- or legally adopted siblings or to those less than three years older than the original qualified beneficiary. Exceptions to this rule may be made in writing by the Board; however, contracts may not be transferred to siblings already in college.

Administrative:

- The program is administered by the Prepaid Postsecondary Education Expense Board, which is assigned to the Division of Benefits/Department of the State Treasurer, but is independent of it.
- The Board is contracting out the functions of records administration, trustee services and product provision.

HAWAII

Type: General obligation bonds sold as educational savings bonds.

Status: College savings bond sale of $65,000,954.53 from Nov. 18 to Dec. 6, 1988.

Description:

The sale of college savings bonds was conducted through the State Department of Budget and Finance within the executive branch of state government. The sale was not a result of specific legislation authorizing the sale of college savings bonds, but was able to be conducted due to statutory changes made in 1988 that liberalized procedures for state general obligation bond sales. Prior to the changes, only current-bond sales were allowable. Current interest bonds pay interest every six months while zero-coupon bonds pay interest at maturity.

To encourage saving for college, the bonds were marketed through advertising for that purpose, and held a maturity value of $5,000. However, the bonds could be purchased at maturities from 1993 to 2008, a period from 4 to 20 year or any yearly period in between. For example, a bond with a 5-year maturity cost $3,652 while one with a 20-year maturity cost $1,147.86. Proceeds from the bonds were used to finance various government capital projects such as schools and highways.

At this point in time, no other college savings bond sales are anticipated by the Budget Office.

Other Considerations:

Unlike in other states, there are no special financial incentives attached to these bonds if used for educational purposes, nor is there an exemption of bond proceeds for students filing for financial aid.

ILLINOIS

Title: Baccalaureate Savings Act, Public Act 85-0939 of 1987

Type: General Obligation bonds sold as college savings bonds

Status:

- Signed December 1987
- First sale, January 1988; $90 million sold; demand possibly as high as $270 million
- Second sale, September 12-16, 1988; $225 million sold with demand as high as $400 million
- Sale of $200 million in college savings bonds set for Oct. 2-6, 1989

Description: General obligation bonds that are designated, marketed and sold as General Obligation College Savings Bonds. These bonds may be used anywhere for anything, including non-educational purposes.

Eligibility and Residency: Anyone may purchase - anyone may use.

Price: College Savings Bonds are all zero-coupon bonds that carry a $5,0000 maturity. Bonds carry mature over a range of 5 to 20 years. Interest rates paid range from 6.9 percent annually for short-term bonds to 8 percent annually for long-term bonds. Depending on the length of maturity, cost of the bonds have ranged from $935 to $3,700 approximately.

Incentives:
- Denominations are smaller than regular general obligation bonds.
- Bonus of .4 percent annually paid if bonds are used for tuition at in-state institutions of higher education. The bonus amounts to $20 per year per bond.
- Up to $25,000 will be exempt from being factored into state financial aid formulas.
- Income tax exemptions

Administrative: The Baccalaureate Trust Authority advises both the director of the Bureau of the Budget and the Governor on all aspects of the bonds. Issuance of the bonds is directed by the Governor upon recommendation by the Director of the Bureau of Budget.

Other: An important aspect of this program is the educational and marketing effort required to inform parents about the options available for financing a higher education and the need to save in advance.

INDIANA

Title: Baccalaureate Education System Trust (BEST program), House Bill 1018 of 1987; Amendments to BEST program, HB 1583 of 1989

Type: Tuition guarantee - Michigan model

Status:
- Original BEST legislation signed May 1987
- Status of IRS and SEC ruling requests must be made known by the board before entering into contracts, according to '87 legislation.
- HB 1583 of 1989 would have brought the state's BEST plan into compliance with IRS rulings, but it failed to win legislative approval.
- Due to the failure of '89 amendments, the likelihood that Indiana will implement its BEST appear to be dimming.

Description: Three plans are offered in the original BEST legislation:

- Plan A: Good for 124 semester hours or 8 semesters <u>or</u> the number of hours required by the institution for a baccalaureate degree, whichever is lesser. Refund under Plan A consists of the investment minus administrative costs, no interest.
- Plan B: Same as above, except for the refund which consists of the investment, plus interest, minus administrative costs.
- Plan C: Good for the completion of a 2-year postsecondary program. Refund is the same as for Plan A.

- Plans A and B may be used to obtain a 2-year degree first before moving on to another state program, or they may be converted to a 2-year degree program entirely.

Eligibility and Residency:
- Residents of the state are eligible to purchase
- Qualified beneficiaries under any of the above plans who are no longer state residents will be responsible for the difference between resident and non-resident tuition.

Price: Not set

Room/Board/Fees? No. Plan covers tuition only.

Incentives:
- Guaranteed tuition
- State and local tax exemptions

Financial Aid Considerations: Proceeds are considered parental contributions for the purpose of calculating financial aid.

Indiana con't next page

Whose risk? Neither the state nor a state educational institution are "obligated to assume the responsibility of meeting the conditions of the advance fee payment contract or any liabilities of the advance fee payment fund."

Portability: None across state lines. A refund may be requested by a person authorized to terminate the contract, and it may be specified that the refund is to be paid directly to an independent degree-granting institution in Indiana. The refund may not exceed the amount applicable to a state school. If there is excess, it will be returned to the requester.

Military time: Not addressed in this bill.

Termination and Refunds: (Refer also to the description of each plan).

-Termination occurs when benefits have not been used within the time specified on the contract, and no other arrangements have been made; there will be no refund in this case.

-Refunds are also not allowed if the qualified beneficiary decides to drop out after completing more than 50% of the allowable semester hours. This does not apply to graduates of two-year programs.

-Refunds are allowed according to each plan (see above) when the qualified beneficiary: 1) dies; 2) is not admitted to a state institution of higher education; 3) certifies to the trust that she or he does not wish to attend a state institution of higher education (beneficiary must be of majority age); or 4) if other circumstances occur, as determined by the trust and the contract.

Transferability/Substitutions:

- Transferability not addressed in this bill
- Substitution permitted

Administrative:

- The trust is administered by the State Board of Finance.
- Assets of the trust fund are not state monies, but are to be invested and spent solely for the purposes of this law.
- This law empowers the trust to study the feasibility of cooperation between private sector investment managers and independent institutions in order to provide prepayment plans for the latter.

Other:

Independent of state legislative action, two governing boards of Indiana public postsecondary institutions implemented their own college savings programs in 1988. The board of trustees of Ball State University designated their own bond issue as college savings bonds and sold the issue in small denominations in order to encourage saving for college. In addition, the board of trustees of Indiana University began offering parents the opportunity to purchase credit hours at current rates in the fall of 1988 for use in 1990 or any year thereafter. The minimum initial purpose allowed under the program is $1,000 for 15 credit hours.

IOWA

Title: Iowa College Super Savings Plan, House File 2377, 1988 legislative session

Type: General Obligation Bonds sold as Educational savings bonds

Status:
- Signed May 1988
- $10 million sold in October 1988
- $9 million sold in February-March, 1989

Description: The Iowa State Board of Regents is already authorized to issue general obligation bonds for educational construction purposes; with this legislation it may issue and sell a portion of these bonds to facilitate savings for future college costs. An issue of not more than $19 million is authorized by this bill. The development of "an educational program and marketing strategies designed to inform parents about the options available for financing a college education and the need to accumulate the financial resources necessary to for a college education" is also mandated. Proceeds from the October '88 bond issue are being used to finance a molecular biology facility at Iowa State University, while the $9 million issue in February '89 will fund the development of a laser lab as well as other university capital projects.

Price: The zero-coupon bonds sold in this program carried maturities of from 5 to 20 years, and all were sold in $1,000 denominations. The annual interest rates averaged about 6.5 percent.

Other: To accomplish the marketing mandate provided for in the legislation, the state College Aid Commission distributed 330,000 letters describing the program through elementary schools in the state in the fall. The Commission also operated an informational booth at the Iowa State Fair in the summer of '88 that distributed information about the college savings bond program, as well as financial aid and other postsecondary materials.

Future Sales: The authorizing legislation limited the sale of college savings bonds to $19 million. At this point in time, no further college savings bond sales are anticipated.

KENTUCKY

Title: Kentucky Educational Savings Plan Trust Act, SB 38 of 1988

Type: Educational savings trust with an endowment fund proposed

Status:
- Signed April 1988
- To be implemented in November 1989;
- Endowment fundraiser set for Oct. 3, 1989 at the governor's mansion with representatives from the state's 25 to 30 top businesses -- 4 other regional meetings to follow with business groups from those areas;
- Media campaign to market the program to families set for the 1989 Christmas season

Description: This bill establishes a public trust in which "citizens of the Commonwealth...may invest moneys for future educational use." An endowment fund is also established "which may be funded with public funds, among other sources, the income from which will be made available to participants in the trust to enhance their savings." A specific amount of money shall be invested for a specific amount of time, but agreements may be amended as needs change.

Note: This plan does not guarantee that the principal invested plus interest earned will cover tuition, fees, etc. either at time of redemption or matriculation. The investment goal is to "meet or beat" the annual rise in the Higher Education Price Index (HEPI) from one year to the next. In the 1980s, higher education nationally costs have been rising at about 7 to 10 percent annually. It is projected that the Kentucky fund will earn 9 percent or more annually.

Eligibility and Residency:

Trust earnings are exempt from state taxes for Kentucky residents if used for educational purposes. Participants may include individuals, firms, corporations or their legal representatives. Participants are considered to be fully vested after 8 years of participation and continuous residency. After becoming vested, even if the family moves out of state, beneficiaries are entitled to pay in-state tuition at Kentucky postsecondary institutions if the Kentucky school is the first postsecondary institution they attend.

Room/Board/Fees? Proceeds may be used for the "certified costs of tuition, fees, room and board..." of higher education.

Incentives: The proposed endowment fund provides an incentive for families to invest in the trust, as they will be entitled to a pro rata share of endowment earnings in addition to their own investment earnings. It is anticipated businesses, corporations and foundations will contribute to the endowment.

Termination and Refunds: The board has set the following conditions for refunds on funds invested in the trust, based on the number of years of participation:

1-2 years: Participants receive only their initial investment back;

2-8 years: Participants receive their investment plus earnings but less an administrative fee;

Over 8 years: Participants are fully vested -- they receive all their initial investment and all their earnings.

LOUISIANA

Title: The Louisiana Education Tuition and Savings Plan, HB 1662 of 1989

Type: Provides for both a guaranteed prepaid tuition program and an educational savings program

Status:
- -- Signed June 26, 1989
- -- To be implemented by the State Board of Regents
- -- The Regents are to submit an implementation plan for review and comment to the House and Senate Education Committees when the legislature reconvenes in April 1990

Description:

The Education Savings Program:

- Provides for the issue by the state of deep-discount, interest-bearing notes to be issued in the name of a beneficiary who may redeem them at full value at any in-state public or private postsecondary institution;

- Requires that the education notes be marketed in various denominations, including $50 and $100, and have from 5 to 20-year maturities with interest exempt from state income tax.

- Should a beneficiary not be admitted to an in-state institution, or chooses to attend an out-of-state institution, the value of the education note will be reduced by administrative fees and a substantial penalty on the accrued interest.

- No penalties on the value of the education note will be assessed on beneficiaries who do not attend postsecondary school due to death or disability, or in other circumstances as circumscribed in the plan by the Regents.

The Prepaid Guaranteed Tuition Program:

- Allows for a one-time, lump sum payment into an interest-bearing account in the state treasury to prepay tuition at an in-state, public postsecondary institution on behalf of a named beneficiary.

- Specifies that all contributions to the guaranteed prepaid tuition program shall be deductible from the benefactor's state income tax.

- Requires beneficiaries to be Louisiana residents at the time of the purchase of the prepaid tuition contract, and continues to consider them residents for tuition purposes as the time of matriculation, whatever their legal residence may be at that time.

- If the beneficiaries are not accepted at a public, postsecondary institution in Louisiana, or choose to attend an out-of-state school, stipulates administrative fees plus a penalty will be deducted from the refund of the prepaid tuition account. No fees or penalties will be assessed where the beneficiary has died or become permanently disabled. Stipulates the Board will enact rules for refunds for other circumstances that may arise.

MAINE

Title: Student Educational Enhancement Deposit Plan (SEED); HP 581 - LD 779 of 1987

Type: Tuition guarantee - Michigan model

Status:
- Approved June 1987
- Status of IRS and SEC ruling requests were to have been made known by the board before entering into contracts.
- Implementation is now unlikely due to an informal opinion issued in July 1988 by the state Attorney General's office declaring that SEED violates the state's Constitutional limit of $2 million on unbonded indebtedness.
- Legislation in the 1989 session, LD 1169, would transfer authority for the SEED plan from the SEED board to a new body called the Maine Education Authority. The legislation empowers the MEA to administer all the student loan and other financial aid assistance in the state.

Description: In the original SEED legislation, two plans are offered, both good for guaranteed tuition at accredited state institutions of higher education leading to baccalaureate degrees. The qualified beneficiary may attend a community or junior college or a state vocational-technical institution first, or may even complete a degree at such a school; appropriate financial arrangements will be made. The main difference between the two plans is that under Plan A the purchaser is entitled to a face-value refund only, while under Plan B a refund of face-value plus interest is allowable.

Eligibility and Residency:
- Residents of the state are eligible to purchase.
- The contract will specify how many credit hours will be paid for if the qualified beneficiary is a non-resident who is entitled to in-state tuition.

Price: Not set

Room/Board/Fees? No, covers tuition only.

Incentives:
- Guaranteed tuition
- State and local tax exempt

Financial Aid Considerations: Not addressed in this bill

Whose risk? Primarily the state's

Maine cont'd next page

MAINE cont'd

Portability: A refund, or "settlement sum," may be paid directly to any accredited institution of the purchaser's choice, including independent institutions. The sum paid out may not exceed the total amount of tuition at a state institution.

Military time: Not addressed in this bill.

Termination and Refunds:

- Termination occurs when benefits have not been used within the time specified on the contract, and no other arrangements have been made. There will be no refund in this case.
- Contracts may be terminated (with refund according to the above plans) if the qualified beneficiary: 1) dies; 2) is not admitted to a state institution of higher education; 3) is at least 25 and certifies that she or he chooses not to use the benefits; or 4) if other conditions occur, as determined by the plan and the contract.
- Refunds are also not allowed if the qualified beneficiary decides to drop out after completing more than 50% of the allowable semester hours for a baccalaureate. This does not apply to graduates of vocational-technical schools or community or junior colleges.

Transferability/Substitutions:

- Transferability is not addressed
- Substitutions are permitted

Administrative: The plan is within the state treasury, but is independent of the state treasurer, and is governed by a board of directors. Fund assets are not to be considered state monies, but they may be pooled with state investments.

Other: The bill stipulates a one-time appropriation of $10,000 for initial administrative expenses, to be paid back from funds collected by the plan by July 1, 1989.

Title: The Michigan Education Trust (MET), Public Act No. 316, Enrolled HB No 5505.

Type: Tuition guarantee. (This is the model for most other tuition guarantee plans.)

Status:
- Signed December 1986
- 82,000 interested parties applied in August 1988; over 40,000 contracts signed from Sept. 1 through Nov. 30, 1988 with a total initial investment of over $265 million in MET.
- New application period set for Oct. 2-6, 1989
- New contract payments accepted from Oct. 2 through Nov. 30

IRS Notes: IRS ruling of March 29, 1988: plan is tax-exempt to the purchaser, although there may be a minimal tax liability to the student when the benefits are used. The Michigan Education Trust (MET) is tax liable at the corporate rate, but also benefits from corporate deductions, reducing net liability.

Description: Three plans are offered:

a) The full-benefits contract--it guarantees full payment of in-state, or in-district, tuition and mandatory fees at any 2-year or 4-year public, postsecondary institution in Michigan.

b) The limited-benefits contract--it guarantees full payment of in-state, or in-district, tuition and mandatory fees where the tuition and fees are not greater than 105 percent of the weighted average.*

c) The Community College contract--it guarantees full payment of in-district tuition and mandatory fees at any public junior or community college in Michigan.

Eligibility and Residency:
- Either in-state or out-of-state residents may purchase contracts but the student beneficiaries must be Michigan residents.

1989 Prices for a full-benefits contract: $1,941 for one year's tuition for a newborn (compared to $1,689 in 1988); $2,393 for one year's tuition for a fifth-grader (compared to $2,055 in 1988). Contracts are written in one-year increments for up to four years of undergraduate college costs.

Room/Board/Fees? No, covers tuition and mandatory fees only.

Incentives:
- Guaranteed future tuition for the student beneficiary.
- Purchase price is state income tax deductible.

Financial Aid Considerations: Not addressed in this bill.

Whose Risk: The Michigan Education Trust's.

Portability: - A refund may be paid directly to an independent degree-granting institution in Michigan or an out-of-state, public postsecondary institution (see next page for an outline of conditions for refunds).

*The weighted average is the average cost of tuition and fees weighted by student enrollment across all the various public postsecondary institutions in Michigan. With enrollment concentrated at the two higher-cost state universities, the weighted tuition rate is slightly greater than the average tuition rate.

Michigan cont'd next page

Military time served: The contract allows the student beneficiary up to nine years after the estimated college enrollment date stated in the contract to make use of the educational benefits. The interceding periods may involve military service, employment, travel or any other activities that end up postponing or interrupting college enrollment.

Termination and Refunds:

- Termination by MET occurs when benefits have not been used within the time specified on the contract. The person specified to receive the refund always retains the right to collect the initial investment despite the passage of time, but if not claimed within the nine-year period following the date when the contract comes due, then only the initial investment will be returned. If their is no claim at all on the contract, the state retains the initial investment through escheats law and the earnings are retained by MET.
- Beneficiaries may terminate a contract and receive a refund according to the following schedule, if the beneficiary:

	Refund:
a) Attends a private, in-state, postsecondary school	The weighted average of tuition in effect at in-state, public, postsecondary schools
b) Attends an out-of-state, postsecondary school	The average tuition in effect at in-state public, postsecondary schools
c) Receives a full scholarship	" "
d) Doesn't attend any kind of postsecondary school	The lowest tuition in effect at an in-state, public postsecondary school
e) Dies or becomes disabled	" "

Transferability: - Contracts may not be sold but they may be transferred. The contract purchaser may transfer the benefits to a spouse, child, step-child, adopted child, grand child, niece, nephew or a legal ward. The student beneficiary can transfer the benefits to a brother, sister, step-brother or step-sister.

Administrative:

- MET is housed within the Department of Treasury, and the State Treasurer serves as Chairman of the MET Board of Directors.
- MET funds are not to be considered state monies, but they may be pooled with state assets for investment purposes.

MINNESOTA

Title: H.F. No. 2396 of 1988

Type: College Savings Bonds

Status:

- Passed April 1988

- Legislation requires the Minnesota Higher Education Coordinating Board to study the feasibility of a state college savings bond program

- Report recommended against developing a state college savings bond plan due to the passage in the fall of 1988 of a tax exemption of earnings on Series EE U.S. Savings Bonds if the earnings are used for tuition and mandatory fees at any postsecondary institution

Description: The Commissioner of Finance, in cooperation with the Higher Education Coordinating Board, was to study the market for and feasibility of college savings bonds (state general obligation bonds). If the report had been favorable, the Commissioner could have then issued G.O. bonds for educational investment.

The report, issued in January 1989, included findings on financial aid considerations, demographics, whether the availability of bonds will actually increase savings, the impact of financial aid on savings habits, estimated demand for these bonds for the next 5 years, discussion of the denominations and maturities of bonds, marketing strategies, etc.

The report also took into consideration passage of federal legislation in late 1988 that exempts interest earned on Series EE U.S. Savings Bonds from taxation if the bonds are used to pay for college. As a result of the federal initiative, the report recommended again establisning a separate state savings bond program.

MISSOURI

Title: Missouri Access to Higher Education Act, HB 1456 of 1988

Type: HB 1456 contains both elements:

Sections 1 - 21, **tuition guarantee**, and Sections 360.015 through 360.120, **savings bonds.** Each will be treated separately below.

Status:
- Signed June 1988
- The state Senate was in the process of confirming nominees to the governing board of the tuition guarantee trust in May 1989
- A $40 million college savings bond issue occurred in January 1989.

Tuition Guarantee, sections 1-21

Description: (Based on the Michigan plan). Purchasers pay into the Missouri Access to Higher Education Trust Fund on behalf of qualified beneficiaries for the advance payment of tuition at any of the state institutions of higher education. There will be no further tuition cost to the qualified beneficiary.

Price: Payments may be made through payroll deductions by the state, state agencies, counties, municipalities or other political subdivisions.

Room/Board/Fees? Proceeds may be used for tuition only.

Whose risk? Primarily the trust's and the state's.

Portability:

-Advance tuition payment contracts may be terminated and direct payment of the refund may be made to an independent degree-granting college or university in the state. The qualified beneficiary will have to make up any shortfall, or conversely, if the refund is greater than the total amount needed at the designated institution, the difference goes to the qualified beneficiary.

-A qualified beneficiary may attend a community college, then terminate the contract upon receiving a degree; or attend community college, receive a degree, then terminate the contract before going on to a 4-year university; or attend a community college, then go on to her or his baccalaureate degree, all on the contract.

-Out-of-state portability is not addressed.

Termination and Refunds: (See Portability, above). Refunds depend upon the contract signed by the purchaser - provision may be made for refunds. Termination is allowed in case of death of the qualified beneficiary (QB); in case the QB is not admitted to a state institution of higher education; in case the QB certifies (after age 18) that she or he has no intention of attending college or university; or under other circumstances that may be spelled out in the contract.

Missouri cont'd next page

Transferability/Substitutions: May not be sold or transferred without prior approval of the trust, "which consent shall not be unreasonably withheld."

Administrative: The trust is to be located within the state office of administration, but will operate independently.

Educational Savings Bonds, sections 360.015 through 360.120

Description: The Health and Educational Facilities Authority of the state of Missouri is empowered to sell bonds to raise revenues to accomplish its goals, and may designate all or a portion of such "bonds, notes or other evidences of indebtedness" as Missouri College Savings Bonds. These bonds are to be structured in such a way as to encourage Missouri residents to save for higher education, and to encourage attendance at Missouri institutions of higher education. Incentives include tax exempt investment alternatives.

Implementation: A $40 million college savings bond issue was conducted in January 1989 through the Missouri Health and Educational Facilities Authority. The total issue consisted of zero-coupon bonds sold in denominations of $1,000 with maturities ranging from 1 year to 20 years. Yields varied from 6.35 percent for a one-year bond to 7.25 percent for a 20-year bond. The price of a one-year bond was $910.80 compared to 232.34 for a 20-year bond. An ad agency in Kansas City placed newspaper ads to inform families of the availability of the college savings bonds. The proceeds of the bonds are being used to finance capital improvements at the University of Missouri in St. Louis.

Future Sales: None are anticipated at this point in time.

NORTH CAROLINA

Title: Senate Bill 820, Chapter 650 of 1987

Type: Either Revenue Bonds or General Obligation Bonds to be sold as Educational savings bonds

Status:

- Signed July 1987
- Interest is local, state and federal income tax exempt
- As of March 1989, about $50 million in college savings bonds had been sold since the program was first implemented in August '87.
- A sale of $21.5 million in college savings bonds was set for early May, 1989

Description: Since the program was first implemented on Aug. 1, 1987, the state Treasurer has set aside about 10 percent of each revenue bond issue and designated that portion as zero-coupon, college savings bonds. The bulk of these college savings bonds have carried maturity values of $1,000 with some of them maturing at $5,000. The maturities of these bonds have ranged from 10 to 20 years and the bonds have been paying an interest rate of 7 to 7.5 percent. Between August 1987 and January 1989, there were a total of 14 revenue bond issues where a portion had been designated as college savings bonds. The sale of $21.5 million in college savings bonds in early May 1989 involved a general obligation bond sale for the first time, as opposed to a revenue bond issue.

Price: As low as $125 each, with a long-term maturity date.

Incentives:
- Small denominations
- Deep discounts
- Tax exemptions on interest

Administrative: State and local governmental units are authorized to sell these bonds. Administrative procedures are the same as when they are sold for non-educational purposes.

Future Sales:

Sales of college savings bonds are conducted on an ongoing basis as they have accounted for a certain portion of public purpose bond sales conducted since August 1987.

NORTH DAKOTA

Title: Educational Bonds for Savings Program policy resolution by the Industrial Commission of North Dakota

Type: Educational savings bonds/Tuition certificates (non-guaranteed). Since the Industrial Commission is already authorized to sell bonds, this is not a legislative bill, but a resolution instructing the Commission to sell a portion of its bonds for educational savings.

Status:

-Policy resolution adopted by the Industrial Commission on April 21, 1988 in accordance with N.D. Century Code Ch. 54-17

-$15 million in Educational Savings Bonds sold in June 1988 with accompanying tuition certificates; these bonds were a portion of a total $125 million revenue bond issue designed to support the North Dakota Student Loan program.

Description: The $15 million in Educational Savings Bonds sold in June 1988 all were zero-coupon revenue bonds that carried a maturity value of $5,000. The maturity dates were from 6 to 13 years, including any year in between. Depending on maturity, interest on the bonds ranged from 6.8 to 7.9 percent.

Incentives: When Educational Savings Bonds come due at maturity, purchasers will receive, in addition to the $5,000 face value of the bond, a tuition certificate ranging in value from $200 to $400. The amount of the tuition certificate varies according to the length of maturity with the shortest-term bonds paying a tuition certificate of $200 and the longest-term bonds paying a tuition certificate of $400. Values of tuition certificates are staggered between $200 and $400 for bonds maturing in years in between. The tuition certificates are redeemable at any public, postsecondary institution in North Dakota.

Future Sales:

Depending on the level of bonding activity approved for student loans, it is possible a similar Educational Savings Bond program will be repeated. But there are no firm proposals for one at this point in time.

OHIO

Title: Amended Sub. H.B 61 of 1989

Type: Authorizes both College Savings Bonds and Tuition Prepayment plans

Status:
- Signed July 1, 1989
- Effective Oct. 2, 1989
- Both plans to be available to the public by Dec. 1, 1989
- Legislation requires IRS ruling to be sought on the prepaid tuition trust, but the state is able to proceed with trust operations in the meantime

Descriptions:

<u>The Ohio College Savings Program</u> --

The savings program will designate College Savings Bonds out of a state general obligation bond issue through the auspices of the state Treasurer's office. Zero-coupon bonds of low denomination and a range of maturities, the college savings bonds will be designated by the Ohio Public Service Commission.

<u>The Ohio Tuition Trust Authority</u> --

- To be overseen by a Tuition Trust Authority consisting of three gubernatorial appointees, one of whom shall be a vice chancellor of the Ohio Board of Regents; two state representatives appointed by the House Speaker, and two state senators appointed by the President of the Senate.

- Plan allows parents or other benefactors to purchase up to 400 tuition credits for use by beneficiaries at any time in the future

-- Each tuition credit is worth 1 percent of the weighted average of the cost of tuition for Ohio's public universities and colleges. (Note: The weighted average is a total of all public, postsecondary tuition charges divided by the total number of students in these schools. The resulting weighted average takes into account that most students attend the higher-priced universities as opposed to the 4-year and community colleges).

-- The price of a tuition credit will be adjusted annually; the per credit price on the initial offering will be set by Nov. 30, 1989, and is expected to be about $25 to $26.

-- While the cost of tuition credits can be expected to rise annually, each tuition credit will carry the same 1 percent value of the tuition charge when it is redeemed as when it was purchased.

-- Purchasers can also buy up to 400 supplemental tuition credits for use for other educational expenses such as books or room and board, or for private college costs. The supple mental tuition credits will also be calculated by the weighted average of state public postsecondary tuition costs.

OKLAHOMA

Title: Oklahoma Tuition Trust Act, HB 2010 of 1988

Type: Tuition guarantee

Status:

- -Signed July 1988
- -Contracts may be purchased after June 1,1990 or upon receipt of a favorable IRS ruling, whichever occurs later.
- -As of March 1989, the IRS ruling had not been received and membership of the tuition trust task force had not been named.

Description: Modeled after the Michigan plan. The legislation provides either plan A or plan B to be offered for the advance payment of tuition (see the Michigan for descriptions of plans A and B).

Eligibility/Residency: Reasonable residency requirements for qualified beneficiaries are to be set by the Board of Regents.

Price: To be determined at a later date.

Room/Board/Fees: Tuition only is covered.

Whose risk? Primarily the state's.

Military time: To be described in the contract.

Termination and Refunds: Refunds will be addressed in the contracts. See also the descriptions of plans A and B. Contracts will be terminated if or when the qualified beneficiary dies, is not admitted to an Oklahoma state institution of higher education, certifies after age 18 that she or he does not wish to attend an Oklahoma institution of higher education, or under other circumstances that will be addressed in the contract.

Transferability/Substitutions: Substitutions are permitted with the Trust's approval.

Administrative: The Oklahoma Tuition Trust will be governed by the Oklahoma Board of Regents.

Other:

If the student receives a scholarship that reduces the amount of tuition required, the Regents will pay out that much less to the institution and will refund that amount to the person contractually designated as the recipient of refunds. (The refund amount will be considered as ordinary income for tax purposes).

OREGON

Title: The Oregon Baccalaureate (ORBAC) Bond Program

Type: General Obligations Bonds designated as Educational Savings bonds

Status: -- $20.75 million in ORBAC bonds sold in May 1988 through the State Treasurer's office under existing statutory authority;

-- HB 3067 was signed in July 1989 to create an ongoing state Baccalaureate Bond program;

-- The first ORBAC sale under the new authorization is set for Sept. 19, 1989.

Description: State Treasurer Tony Meeker conducted a pilot sale of ORBAC bonds in May 1988 where the vehicle was a negotiated bond refunding of $20.75 million. He was able to issue the low-denomination ORBAC bonds, all with a face value of $5,000, because of his existing statutory authority in the area of bond refundings. In the 1989 legislature, his office sought and received legislative approval to make ORBACs a part of new bond issues as well. In the sale set for Sept. 19, 1989 based on this new legislation, $25.8 million out of a total $41 million bond issue will be designated as ORBAC bonds. The remainder of the issue will be sold as current-coupon bonds. The proceeds of the bond issue are to be used for university dorms, parking lots and other campus construction needs.

The sales of ORBAC bonds have received wide coverage from the press in both the news and advertising columns. In order to ensure that ORBAC bonds will be available statewide, the September 1989 issue will be sold at 32 banks and brokerages around the state.

Price: The $20.75 million in ORBAC bonds sold in May 1988 all had a face value of $5,000 and matured from 1998 to 2008, or any year in between. The cost for a 5-year bond was $3,730 and a 20-year bond cost $1,135. Interest rates ranged from between 5.75 to 7.5 percent.

The $25.8 million in ORBAC bonds for sale in September 1989 will all be zero-coupon bonds with a face value of $5,000 each. They will carry maturities ranging from 6 to 30 years, and, predicated at a 7 percent annual return, the initial charges will range from $635 to $3,309.

Future Sales:

With approval of the 1989 legislation, about three issues of ORBAC bonds are planned each year.

RHODE ISLAND

Rhode Island passed a package of three bills in 1988 that provide for educational savings bonds, state-tax-free educational savings accounts, and exemption of the first $25,000 from financial aid considerations. One of the bills, "Public Law Chapter 88-425, An Act Relating to Education - Postsecondary Financial Assistance," also mandates that state tuition grant monies be doubled by 1993 and describes how need-based grants and scholarship are to be awarded. The other bills are as follows:

Title: Public Law Chapter 88-426, "An Act To Create The Rhode Island College and University Savings Program..."

Type: General obligation bonds sold as college savings bonds

Status:
- Signed June 1988;
- Was approved by voters at the November 1988 elections.
- The first sale of college savings bonds was held April 24-May 2, 1989. (See details below).

Description: A total of $46 million was invested in college savings bonds in the state out of a total bond issue of $80 million during the April 24-May 2 sale. The sales exceeded the objective of $40 million in college savings bonds. The zero-coupon, college savings bonds were sold in maturities of 1 year; 5 years; 10 years and 20 years for values maturing at $1,000 and $5,000. The bonds are maturing at rates varying from 6.9 percent for a 1-year bond to 7.3 percent for a 20-year bond. For example, a 20-year bond maturing at $5,000 would cost $1,188.45 while a 1-year bond maturing at $1,000 would cost $931.95. The program is administered by the State Treasurer's Office.

Financial Aid Considerations: According to Section 2 of this legislation, the first $25,000 of college and university savings bond investments will not be "considered in evaluating the financial situation of a student," nor will it be "deemed a financial resource or a form of financial aid or assistance..." Neither will it "reduce the amount of any guaranteed loan, scholarship, grant or monetary assistance..."

Upcoming Sales: Due to the strong demand for college savings bonds in the spring 1989 sale, it is anticipated there will be another college savings bond sale in 1990.

****

Title: Public Law Chapter 88-427, "An Act Relating to Family Education Accounts."

Type: Educational savings.

Status:- Signed June 1988

Description: Family Education Accounts may be established by individual taxpayers with a qualified depositary (national bank, federal savings & loan associations, etc.)to provide educational benefits to one or more qualified beneficiaries. All interest earnings are exempt from state income tax. Any monies withdrawn for non-educational purposes lose this exemption.

TENNESSEE

Title: Tennessee Baccalaureate Education System Trust Act of 1987, HB No. 618, Public Chapter No. 281. Repealed and amended by HB 932 of 1989 to create the "Baccalaureate Education Savings for Tennessee Act."

Type: The BEST of 1987 was a prepaid tuition plan based on the Michigan model; the BEST of 1989 which replaces it is an educational savings bond program.

Status: HB 932 was signed by the governor on April 26, 1989. It repeals the '87 legislation to create a state prepaid tuition trust, and replaces it with a college savings bond program.

Description:

The '89 legislation authorizes either the Tennessee state funding board or the Tennessee state school bond authority to issue "college savings bonds." It mandates that the college savings bonds shall be:

- Zero-coupon bonds exempt from both federal and state taxation (Tennessee has no state income tax);
- Have maturities from 5 to 20 years;
- May be sold at either a competitive or negotiated bond sale.

The legislation further mandates the Tennessee state funding board or the Tennessee state school bond authority, when issuing a college savings bond sale, to implement the following:

- Advertising to inform the public about the availability of college savings bonds;
- Marketing and financing of the issue and sale;
- The specific increments, maturities and denominations in which to market the bonds in order to the bonds affordable and funds available at the time when such funds are needed to meet higher education costs.

Implementation:

It is anticipated plans will begin to designate a college savings bond issue within the coming fiscal year.

TEXAS

Note: In 1989, the Texas state legislature passed a bill that would allow college savings bonds to be issued by the various state bonding authorities. It also passed a bill and a resolution that, depending upon approval of a Constitutional amendment by the voters, directs the Texas Higher Education Coordinating Board to issue up to $75 million in college savings bonds in denominations of $1,000 or less to replenish a student loan fund. The amendment was approved by the voters in the November 1989 elections. Details of the legislation are as follows:

Title: The College Opportunity Act, SB 94 of 1989

Type: College Savings Bonds

Status: -- Passed May 1989

-- Creates the College Opportunity Act Committee to advise and recommend bond issues suitable for designation of College Savings Bonds.

-- $4 million in college savings bonds were designated from a $40 million bond issue for the Veterans Land Board. The college savings bonds -- in $1,000 and $5,000 denominations -- went on sale Oct. 25, 1989. Maturities ranged from 15 to 20 years and the return to savers is 7 percent annually.

Description:

The College Opportunity Act Committee is to serve as an advisory board to the Bond Review Board and recommend to the board bond issues that will be suitable for designation of low-denomination, zero-coupon bonds to be sold for the purposes of saving for college. The committee is to be made up of the commissioner of the General Land Office; the commissioner of higher education; the executive administrator of the Texas Water Development Board; the comptroller; the state treasurer; the executive director of the bond review board, and three members of the public appointed by the governor. The gubernatorial appointees must have knowledge, skill, and experience in the academic, business or financial field.

The bonds eligible for designation as college savings bonds may be issued by the Veterans' Land Board; the Texas Water Development Board and the Texas Higher Education Coordinating Board.

The legislation provides that all or part of a bond issue from these authorities may be designated as college savings bonds. The bonds are to be issued in low denominations, and must be zero coupon bonds or another kind of bond that encourages savers to hold them until maturity.

Incentives:

The first $10,000 in proceeds from college savings bonds are exempt from consideration as assets for financial aid purposes. In addition, a bonus payment of .4 percent may be paid on college savings bonds to those who hold them until maturity, but was not part of the October 25, 1989 issue.

****

Title: College Savings Bonds, SB 457 and SJR 74 of 1989.

Type: College Savings Bonds

Status:

-- Bill and resolution approved May 1989
-- Constitutional amendment required
-- Prop. XXI approved by voters in Nov. 7, 1989 general election (61 percent pass rate with 682,938 yes and 437,190 no votes)
-- Sale of $75 million in college savings bonds anticipated not sooner than summer of 1991

Description:

The Constitutional amendment approved in November by the Texas voters will allow the Texas Higher Education Coordinating Board to issue $75 million worth of general obligation bonds to be sold as college savings bonds. Bond proceeds will support the Texas Opportunity Plan Fund which provides low-interest loans to college students and their families.

The college savings bonds are to be sold as zero-coupon bonds in denominations of not more than $1,000.

VIRGINIA

Title: Virginia Tuition Savings Program (H 175 of 1988)

Type: Educational Savings Plan

Status:

- H 175 signed April 1988
- Amendments approved in 1989 session allow for a wide choice of permissible types of investments, including the sale of college savings bonds
- College Savings Bond sale of $50 million set for June 15, 1989

Description: The original legislation provided for a unit investment trust. Because such a vehicle could place investors' principal at risk, the amended legislation passed in '89 provides for a wider scope of permissible investments. As a result, the state is proceeding with a College Savings Bond sale of $50 million set for June 15, 1989. Proceeds from the sale are to be used for higher education capital improvements and highway construction.

The sale involves zero-coupon general obligation bonds designated as college savings bonds. The bonds have a face value of $1,000 or $5,000, and mature in a range from 5 to 20 years. The interest rates range from between 6.7 to 7 percent. In order to make them available to the small investor, no purchaser can buy more than $50,000 of these bonds.

Other: The state tax booklet issued in the spring of 1989 included a page prepared by the Virginia Council of Higher Education detailing the costs of college, and recommending early financial planning. It specifically alluded to the Virginia Tuition Savings Program, and included a toll-free number to obtain more information. Brochures and other informational materials have also been prepared in connection with the June 1989 sale of college savings bonds.

WASHINGTON

Title: The College Savings Bond Act of 1988, HB 1640
Also, the Omnibus Bonding Authorization Act of 1989, Sub. HB 1484

Type: General Obligation Bonds designated as College Savings Bonds

Status:
- -- An issue of $50 million sold the week of September 12, 1988 based on the authorization of HB 1640 passed in March 1988;
- -- A $75 million college savings bond sale is set for Sept. 14-20 with authorization given for additional sales of this type in the Omnibus Bonding Authorization Act, signed June 1, 1989.

Description: The initial legislation passed in 1988 capped the College Savings Bond sale at $50 million with the proceeds used at that time for capital improvements at state institutions of higher education. Due to the success of the September 1988 sale in which the bonds sold out within the week, the legislature approved language in the 1989 Omnibus Bonding Authorization Act that enables the State Finance Committee to designate College Savings Bond as it deems appropriate.

Price: At the September 1988 sale, a College Savings Bond maturing in 2008 could have been bought for $1,077. Maturities on the $5,000 zero-coupon bonds ranged from 1995 to 2008.

For the Sept. 14-20 sale in 1989, 95 percent of the sale will involve $5,000 zero-coupon bonds with maturities ranging from 7 to 22 years. Five percent of the issue will be devoted to $1,000 zero-coupon bonds -- called "mini-bonds" -- with maturities of 10, 15 or 20 years. The anticipated yield on the tax-exempt bonds is 6.5 to 7.1 percent.

Future Sales: The 1989 legislation allows the State Finance Committee to conduct College Savings Bond sales in conjunction with overall capital bonding needs. Currently, it is forseen that sales of this type will recur annually.

Administration: College Savings Bond sales are authorized by the State Finance Committee and conducted by the State Treasurer's office. In addition to advertising provided by the underwriters, state officials are informing the public of the concept through press releases, brochures, and briefings of members of newspaper editorial boards and hosts of radio shows.

WEST VIRGINIA

Title: West Virginia Higher Education Tuition Trust Act (also known as the TIGER program - Treasury Investment Guaranteed Education Reserve)

Status:

- Passed July 14, 1988
- Target for implementation: 1990
- Initial legislation required IRS and SEC rulings before proceeding; 1989 amendments (SB 420, signed 4/29/89) allows West Virginia to proceed on the basis of federal rulings received by another state with a prepaid tuition plan.

Type: Guaranteed prepaid tuition.

Description: Guarantees that tuition and all mandatory fees required of resident undergraduate students will be paid for at state institutions of higher education.

Eligibility and Residency:

Any in- or out-of-state resident may be named as the qualified beneficiary. If the beneficiary is a non-resident at time of matriculation, however, the difference between resident and non-resident tuition will have to be borne by the beneficiary or the purchaser. The purchaser may reside in- or out-of-state.

Price: Costs will vary depending on the student's age, grade in school, and/or payment option selected. They will be based on the estimations of an actuary which will project the costs of a college education into the future.

Payment Options: Two payment options are proposed: a one-time, lump sum plan or an installment plan involving monthly payments. Because of increased administrative expenses, the installment payment plan will cost more overall than the one-time, lump sum plan.

Room/Board/Fees: Tuition and fees are covered; room and board are not.

Whose Risk? Primarily the state's.

Portability: Contracts are portable to independent and/or out-of-state schools; however, the difference in cost must be borne by the purchaser or qualified beneficiary.

Military Time: The contract will be extended for the period of time of active duty provided that a Federal Selective Service Act is in effect at that time.

West Virginia cont'd next page

Termination and Refunds:

If the qualified beneficiary dies or is permanently and totally disabled, the total investment plus all accrued interest is refunded. If the qualified beneficiary is not admitted to college; decides not to attend college; completes a 2-year degree and does not wish to continue; is on active military duty while a Federal Selective Service Act is in effect; or there are other circumstances contractually stated, a refund will be granted. This refund will consist of the investment plus accrued interest minus administrative fees minus any monies already transferred to an institution of higher education prior to termination.

Transferability/substitutions: Purchaser may substitute one person for another as qualified beneficiary under conditions specified in the contract. Contracts may not be sold or otherwise transferred without the trust's approval.

Administrative: Will be administered by the State Treasurer's office.

WISCONSIN

Title: Act 46 of 1989 (resulting from A.B. 233 of 1989); technical corrections are included in A.B. 616 of 1989

Type: Educational Savings Bonds

Status:

- -- Act 46 enacted Sept. 1, 1989
- -- Technical corrections are incorporated in A.B. 616 introduced Oct. 16, 1989; passage expected in November 1989
- -- Implementation anticipated sometime in 1990

Description: As passed, Act 46 allows the state Building Commission to issue zero-coupon, higher education bonds with maturities of not more than $1,000. The act also allows the bonds to be presented before maturity to any accredited postsecondary school for payment of tuition, fees and room and board, according to the accrued market value of the bond at that time. Holders of higher education bonds are not required to redeem them with a postsecondary school. Proceeds of the bonds may be used for any purpose, although they will be sold so as to encourage saving for college.

The passage of the bill was followed by the introduction of A.B. 233 in October which contains some technical corrections to enable the sale of higher education bonds to proceed. The bill exempts higher education bonds from the requirement that the bonds be sold through competitive bidding so that a negotiated bond sale can be developed that will allow for the sale of the low-denomination bonds.

WYOMING

Title: Advance Payment of Higher Education Costs, Enrolled Act No. 9 of 1987

Type: Tuition guarantee - Michigan model. The difference is that Wyoming's plan includes tuition, room and board in one comprehensive package.

Status:
- -Signed February 1987; Contracts went on sale in August 1987
- -437 contracts amounting to a total investment of over $3 million as of April 1989
- -509 contracts sold as of September 1989
- -IRS ruling not needed

Description: Six plans are offered:

- -Resident tuition, room, board at any Wyoming community college
- -The same for non-residents
- -Resident tuition, room, board at the University of Wyoming
- -The same for non-residents
- -2 + 2 Plan providing resident tuition, room, board for two years at a community college followed by another two years at the University of Wyoming
- -The same for non-residents

Benefits may be used no sooner than ten years after payment and may be begun no later than 17 years after.

Eligibility and Residency:
- -Plans may be purchased by anyone.
- -Qualified beneficiaries do not have to be residents; however, if a non-resident beneficiary becomes a resident, the difference in the cost of plans will not be refunded.

Price: As of Aug. 1, 1989, cost for a contract maturing in 2005 was $8,949 for 4 years' tuition and room and board. A year earlier, the price for a comparable contract maturing in 2004 was $6,393. During the first year of the program, the comparable price for this contract maturing in 2003 was $5,114.

Room/Board/Fees: Room and Board are covered in all plans.

Incentives: Guaranteed tuition, room, board.

Financial Aid Considerations: Not addressed.

Whose risk: Primarily the state's.

Portability
- -Portability to within-state independent schools is a moot point since Wyoming currently has no independent or private institutions of higher education.
- -No portability out of Wyoming

Military time: Not addressed.

Wyoming cont'd next page

Termination and refunds:

- Refunds may be given under almost any circumstance, even when the qualified beneficiary chooses not to continue her or his schooling.
- The refund amount will be the investment plus 4% interest compounded annually, minus a pro-rated amount for each semester attended.
- If the qualified beneficiary does not use all benefits, such as when she or he chooses not to contract for room or board at the school, or if any of the costs are paid by another source, the beneficiary may receive these benefits directly.

Transferability/Substitutions:

- Contracts may neither be transferred nor sold.
- Substitutions are permitted.

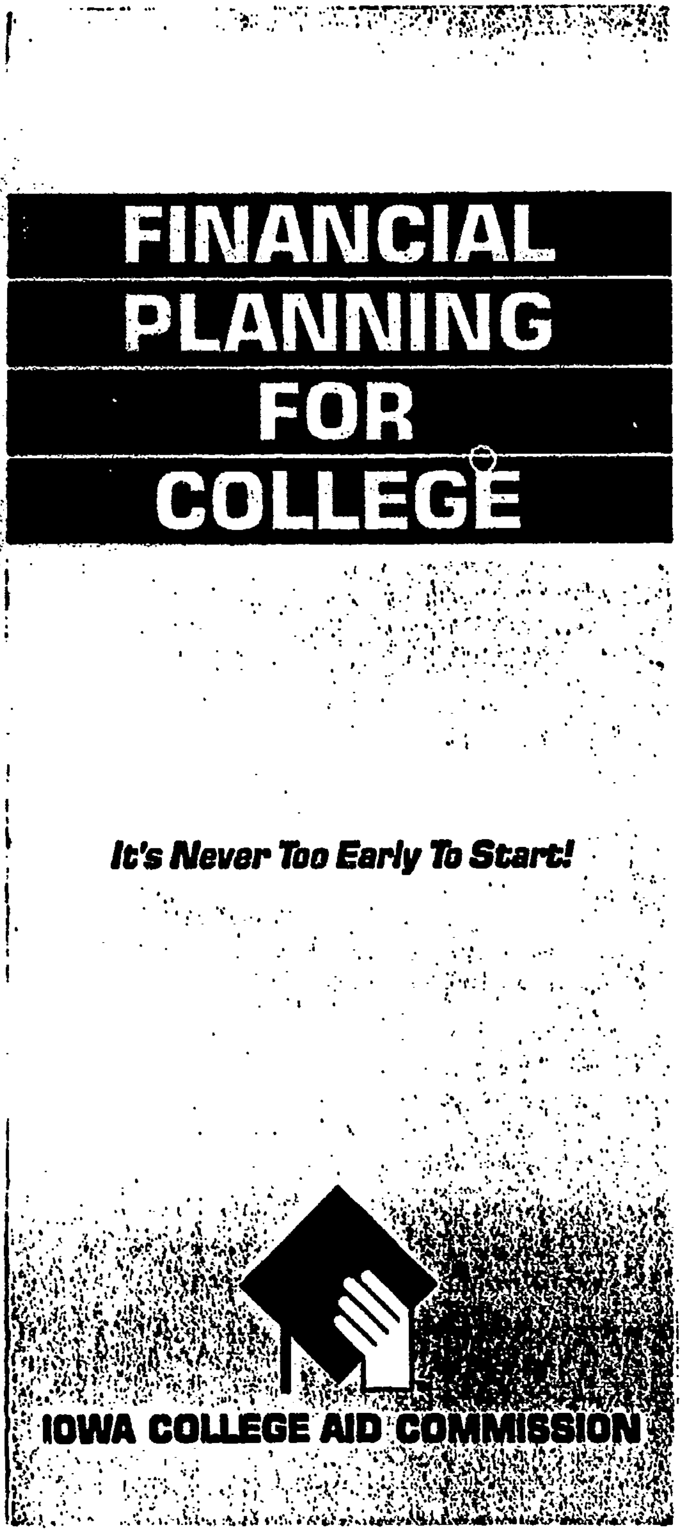
Administrative:

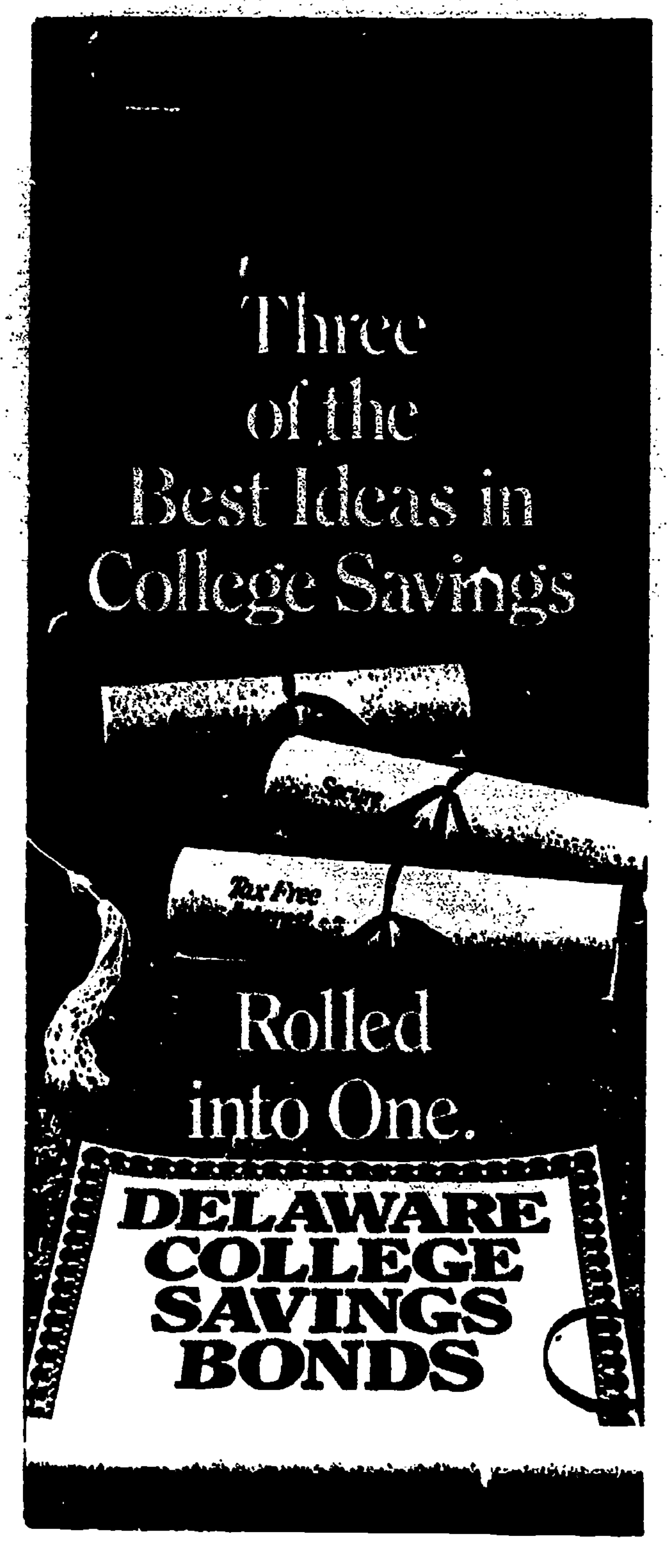
- The program is administered by the Deputy Treasurer of the University of Wyoming Board of Trustees.
- Administrative fees are to be no more than 2% of the fund's earnings.
- Funds are to be invested with all other University of Wyoming investments.

SECTION IV

Samples of Informational Materials

For Marketing College Savings Plans


FINANCIAL
PLANNING
FOR
COLLEGE
It's Never Too Early To Start!
IOWA COLLEGE AID COMMISSION


Three
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Best Ideas in
College Savings
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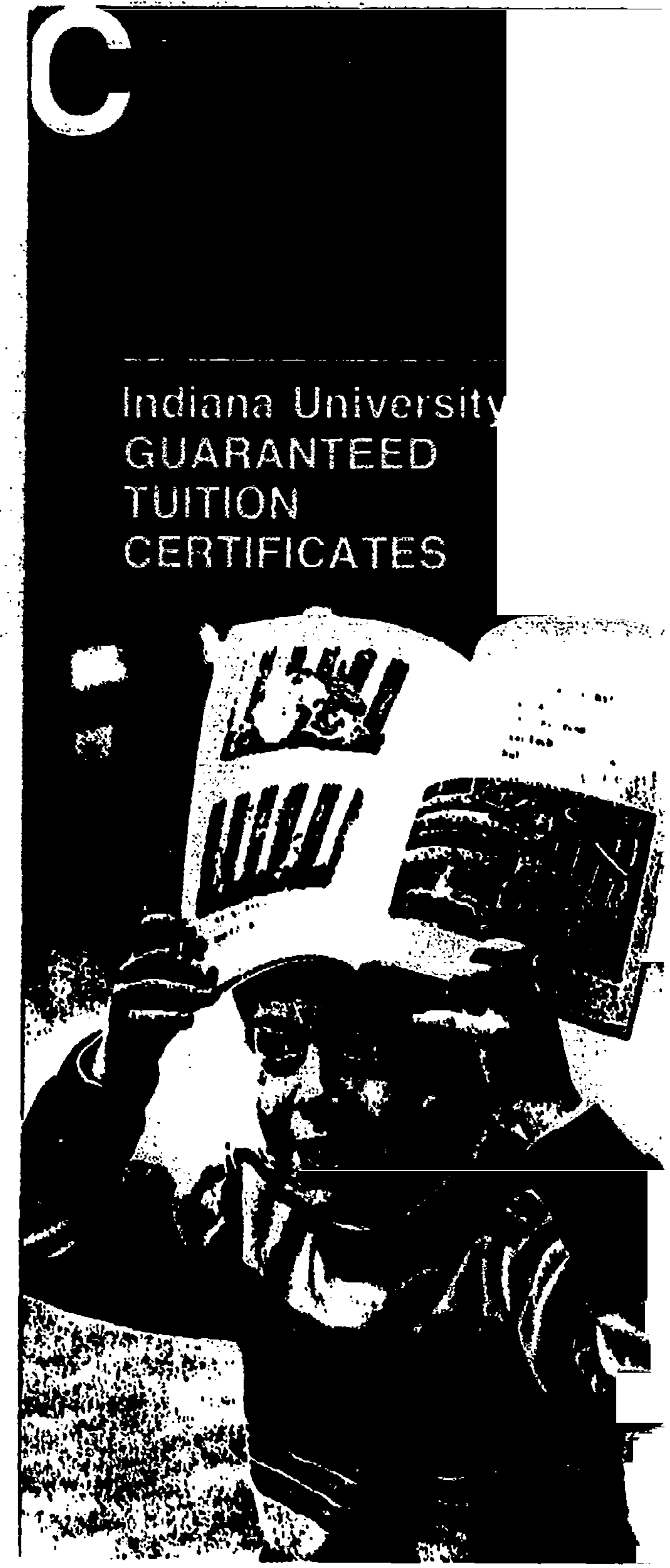
into One.
DELAWARE
COLLEGE
SAVINGS
BONDS


Indiana University
GUARANTEED
TUITION
CERTIFICATES

STATE OF ILLINOIS

REGISTERED

No.

COLLEGE SAVINGS BOND

Puzzled by the college savings bond program?

The College Savings Bond Program was signed into law by Governor James R. Thompson in 1987. This brochure has been created to answer the most frequently asked questions about College Savings Bonds.

What is the College Savings Bond Program?

The College Savings Bond Program is an innovative program designed by Illinois to promote long-range financial planning by parents for their children's college education, and to provide the means for financing these plans. College Savings Bonds are structured as zero-coupon bonds bought by the purchaser at a deep discount and do not have current interest payments. The interest payments are instead paid on the date the bond reaches maturity.

Why should I plan ahead financially for my child's college education?

Paying for a child's college education has become an increasingly expensive proposition. As the graph illustrates, tuition and fees increased substantially between 1976-77 and 1986-87 for community colleges, public universities, and private institutions in Illinois, with average annual increases during this 10-year period of about 99 percent, 174 percent, and 152 percent respectively. Assuming that these trends continue, the expected cost of attendance at institutions in all three sectors will almost double by the year 2000. These figures do not include books, room and board, and other expenses associated with the cost of a college education. Spread out over four years, paying for college begins to take on the same dimensions as buying a house or saving for retirement. As with these other long-term investments, financing a child's college education needs to begin now.

What are the advantages of participating in the College Savings Bond Program?

In addition to providing a secure way to plan ahead for a child's postsecondary education, the College Savings Bond Program has several other advantages. The major advantage of the bonds is that the proceeds are exempt from federal and state income tax. Another advantage of the bonds is that proceeds up to $25,000 are exempt from the state student financial aid needs test which is administered by the Illinois State Scholarship Commission. The tax-free earnings can be used at colleges in Illinois, at colleges in other states, or at the purchaser's discretion. Depending upon the supply available, purchaser may buy as many of the bonds as they wish. An added incentive was applied to the first series of bonds. It provided if the bonds are used at a college or university in Illinois, the State will pay an additional $100 to $400 (depending on maturity and funds available) directly to the institution toward the student's educational expenses.

How does the College Savings Bond Program work?

At maturity each of the zero-coupon bonds purchased is worth $5,000. Maturity dates range from five to 20 years from the date of purchase, with the discounted price of the bond ranging from approximately $1,000 to $3,500 depending on the particular date of maturity and yield of the bond.

An Example:

Parents with one child, age 2, buy a College Savings Bond with a maturity of 16 years (2004). The Bond pays $5,000 at maturity, but can be purchased at the discounted price of about $1,400*. Grandparents of the child buy a second Bond with the same maturity. In 2004, when the child is age 18, the Bonds come due and $10,000 is available to fund the child's college expenses. The student may also receive the additional financial incentive if the child enrolls in a college within Illinois.

*The $1,400 price assumes a yield of 7.85 percent. Actual prices and yields on the Bonds are set immediately prior to the Bond sale.

How can I order a College Savings Bond?

College Savings Bonds can be ordered through many banks and brokerage houses with offices in Illinois. Interested persons should contact these outlets for additional information.

AMERICAN BANK NOTE COMPANY

NEWS RELEASE

GENERAL TREASURER ANTHONY J. SOLOMON 102 State House, Providence, Rhode Island 02903

For Release: IMMEDIATE May 3, 1989

GENERAL TREASURER SOLOMON ANNOUNCES COLLEGE BOND SALES EXCEED EXPECTATIONS

General Treasurer Anthony J. Solomon today announced that the state's first College Bond sale was a smashing success, surpassing the $40 million goal.

"I am extremely pleased to announce the sale of $46,373,353 in bonds," Mr. Solomon said.

"We were able to address an ongoing need to plan financially for college education," Mr. Solomon said. "As educational expenses continue to increase, we must provide the vehicles that will help Rhode Islanders save for that education. Therefore, it is my intention to come back with a second College Bond issue."

The success of the Bond issue, Mr. Solomon said, also signifies the success of the program to educate parents and grandparents of the need to prepare for their children and grandchildren's future.

"What we were able to accomplish, is to instill in the people of Rhode Island a need to save," Mr. Solomon.

For Further Information Contact:
Frank S. Prosnitz, Press Secretary
277-2397 - 781-2038 (H)

College Bonds, which are free from federal and state tax, were offered for sale from April 24 to May 2. Besides being tax free, the first $25,000 in bonds are exempt from the state aid formula for educational grants and scholarships.

The bonds were promoted primarily as a means of saving for college education, but were also available for other investments, including retirement.

Mr. Solomon also praised all the underwriters, financial institutions, the College Bond Advisory Board, and the media for their efforts in promoting the bond issue and making sure it was accessible to all Rhode Islanders.

-30-

Iowa College Aid Commission

201 JEWETT BUILDING
NINTH AND GRAND AVE.
DES MOINES, IOWA 50309
(515) 281-3501 GENERAL STUDENT AID DIV
(515) 281-4890 LOAN DIVISION

September 19, 1988

Dear Parent,

From the moment of birth, parents harbor great hopes for their child--a nice home, close friends and a bright future. As the child grows older, the question, "What are you going to be when you grow up?", becomes a more serious consideration with every passing year. When that decision is finally made, chances are some type of training beyond the high school level will be required. If that training calls for a college education, meeting the costs entails a great deal of financial planning. Part of this planning should include a savings program.

Meeting college costs is a family responsibility. State and federal programs were established to supplement existing family resources when it is determined that college expenses are beyond the family's means. In almost every case, the family is expected to make a contribution towards college expenses.

Few families can pay for college out of their current income alone, nor should they. Higher education represents an investment that "pays off" over many years. The family should consider meeting its contribution with a savings program over many years as well. There are numerous savings programs that can help you save for a college education. Ask your lending institution, insurance agent or investment broker to recommend a savings program that fits your situation.

The Iowa Legislature and the Governor recognize the fact that long term savings is not always an easy task. For this reason, the 1988 General Assembly authorized the Iowa Board of Regents to establish the Iowa College Savings Bond Program. Through this program Iowa residents are able to save for their children's education through the purchase of Iowa State Board of Regents Bonds, which bear interest that is exempt from federal and state personal or corporate income taxes.

These bonds are scheduled to be offered to the general public during the month of October, 1988. The bonds will be sold in denominations of $1,000, and will pay interest at maturity.

Those enrolling in this type of long-term savings program have the benefit of saving for their child's education. In addition, this type of investment device does not require close "monitoring." It offers a guaranteed return, if held to maturity, and the maturity date is selected in advance, so you know exactly how much you will receive and when you will receive it.

For more information regarding the purchase of these bonds, please call the managing underwriters, Edward D. Jones and Company and Dain Bosworth, Inc. at 1-800-544-8314.

Sincerely,

Gary W. Nichols

Gary W. Nichols
Executive Director

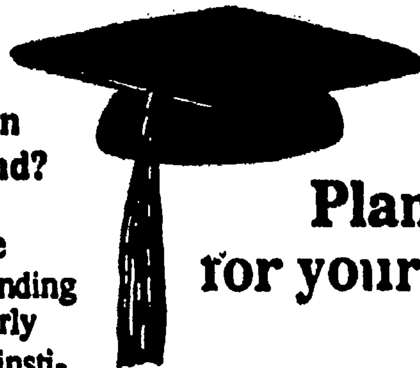
GWN:mc

What will college cost when your child is ready to attend?

Between 1980 and 1988, the average yearly cost of attending college in the U.S. rose by nearly 71 percent at public four-year institutions and by over 91 percent at private four-year colleges. Estimates are that college expenses will continue to grow by six percent per year well beyond the year 2000. If this trend persists, growth in family income and in student financial aid is not likely to keep pace with the increased expenses of higher education. That's why it is important to you to begin now to save money to help finance your child's college education—especially if you're the parent of a young child.

The table below shows the projected cost for a student to attend college for a year (including tuition, fees, room and board) for selected years through the year 2007. For example, if your child is in the first grade this year, his or her first year at a public college or university in the year 2001 might cost as much as $12,000—and it might take, on the average, $52,000 for your child to complete a four-year degree.

Beginning a carefully planned savings program now can help you be ready to meet those expenses



Plan ahead for your child's college education

when your child is old enough for college. Savings multiply fairly quickly. If you save the amount noted in the table below for a particular year, assuming a six percent interest on your savings, you should have enough money to pay the higher education expenses noted in any one of the following years. For example, if you save $6,000 in 1989 in a savings plan that brings you six percent interest, by 1995 you'll have the $8,500 your child probably will need for a year of college then.

Choosing from diverse savings and investment options

If your family is financially able to set aside funds for your child's college education, you should select an investment or savings plan now that bests suits your particular financial circumstances. You may wish to seek professional advice to help you determine the most appropriate option for you.

One new option available to Virginians is the Virginia Tuition Savings Program, a cooperative effort between state government and the private sector. Parents, relatives and others can participate in the Virginia Tuition Savings Fund. The money earned can be used to help pay college expenses at any public or private institution in Virginia or outside the state.

The Virginia Tuition Savings Program is a convenient way for many Virginia families to save money for future college expenses. You may be especially interested in learning about the program if you have young children. For more information about this program or other financial aid, contact the:

State Council of Higher Education for Virginia
James Monroe Building
101 North Fourteenth Street
Richmond, Virginia 23219
Phone (804) 225-2141

This information about future college expenses is being distributed with state income tax information in compliance with Title 23, Chapter 4.8, Section 23-78.72 of the *Code of Virginia*, which requires that Virginia taxpayers be informed of projected future expenses of higher education and be provided information about available options for financing college.

Projected college expenses at two- and four-year institutions

	Enter College 1989		Enter College 1995		Enter College 2001		Enter College 2007	
Average expenses	First year expenses	Total for degree	First year expenses	Total for degree	First year expenses	Total for degree	First year expenses	Total for degree
Public 4-year	$6,011	$26,296	$8,527	$37,301	$12,095	$52,913	$17,158	$75,058
Private 4-year	10,621	46,465	15,067	65,911	21,373	93,497	30,317	132,627
Public 2-year	832	1,714	1,180	2,432	1,674	3,449	2,375	4,893

NOTE: Except for two-year institutions, the expenses shown include tuition, fees, room and board. They do not include the additional cost of books, supplies, transportation, and other costs of attending college. Actual expenses may vary considerably from the estimated averages shown, depending on the particular college or university your child attends. Expenses shown for two-year institutions include only tuition and fees, since no two-year colleges in Virginia have on-campus housing.

FRANCISCO L. BORGES
TREASURER

State of Connecticut

OFFICE OF THE TREASURER

EDWARD J. PORAND
DEPUTY TREASURER

NEWS

For immediate release
Monday, February 6, 1989
2:00 p.m. or thereafter

For more information, call
Kathleen Palm, 566-5050

HARTFORD -- A survey of purchasers of the new State of Connecticut College Savings Bond program shows that the plan successfully achieved its goal of helping Connecticut families plan for their children's college education, State Treasurer Frank Borges told the Family College Savings Plan Advisory Committee today.

"In almost every respect, the new State of Connecticut College Savings Bond issue that went to market in December, 1988, was a resounding success," Borges said at a meeting at the Legislative Office Building in Hartford.

"The intent of the enabling legislation that authorized this program was to give Connecticut families a new investment vehicle that would help them plan for their children's college education, and the program did just that, as the figures I will report to you today clearly show," he said.

Borges said that as hoped, orders for the bonds were received from all over the state, from people in a wide range of income brackets.

"This program touched many thousands of people -- 17,000 of them, to be precise," he said. "That is an astonishing figure for a bond issue of this nature. Normally, on an issue of this size, there are only about 250 orders placed. The volume of College Bond orders was staggering."

Given the demonstrated heavy demand for the bonds, Borges said his office plans to issue the bonds again in early April.

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Borges said that based on a sample of about 400 buyers, the following facts emerged:

The vast majority of buyers -- a full 92 percent of them -- said they would buy the College Savings Bonds again.

-- Total volume was $100,028,658.42.

-- The smaller investor was served well.

- $3.5 million worth of bonds were sold in $1,000 denominations.

- There were 8,000 orders for bonds worth $5,000 or less maturity value -- which was about 50 percent of the total issue.

- About 75 per cent of the bonds were purchased by Connecticut residents investing in bonds worth $25,000 or less maturity value.

-- Geographic distribution

Bonds were bought in Connecticut, New York, Massachusetts and elsewhere, but primarily in Connecticut, where 85 per cent of the bonds were sold, in virtually every corner of the state.

-- Use of the proceeds

About 85 per cent of the purchasers said they intended to use the proceeds for a college education. Thirteen per cent indicated they would use the proceeds for retirement, and three percent of investors had "other" purposes in mind.

-- Buyer profile

Approximately 75 percent of the purchasers were between 30 - 49 years of age.

-- Age of children

Approximately 90 per cent of the children for whom the bonds were purchased are between the ages of 1 and 12.

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-- Household Incomes

Approximately 65 per cent of people purchasing the bonds have household incomes ranging from under $30,000 to $72,000.

Household Income	Per cent
$29,000 or less	4.6
$29,801 to $38,500	7.7
$38,501 to $53,999	26.5
$54,000 to $71,900	24.7
$71,901 to $192,000	31.8
$192,000 or more	4.7